



CITY OF BOSTON, MASSACHUSETTS

Basic Financial Statements and Required Supplementary Information

June 30, 2003

(With Independent Auditors' Report Thereon)

CITY OF BOSTON, MASSACHUSETTS

Table of Contents

	Page
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis – Required Supplementary Information	3 - 13
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet – Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	19
Statement of Revenues and Expenditures – Budgetary Basis General Fund – Budget and Actual	20
Statement of Net Assets – Proprietary Funds	21
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	22
Statement of Cash Flows – Proprietary Fund Types	23 - 24
Statement of Fiduciary Net Assets – Fiduciary Funds	25
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	26
Notes to Basic Financial Statements	27 - 58
Schedules of Funding Progress and Employers' Contributions – Required Supplementary Information	59



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Independent Auditors' Report

The Honorable Mayor and City Council
City of Boston, Massachusetts:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston, Massachusetts, as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Boston's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain entities, which represent 4% and 33% of the assets and revenues, respectively, of the aggregate remaining fund information and 24% and 23% of the assets and revenues, respectively, of the discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the financial statements, insofar as it relates to the aggregate remaining fund information and the discretely presented component units and their effects on the governmental and fiduciary activities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the permanent funds and private-purpose trust funds were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston, Massachusetts, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 through 13 and the schedules of funding progress and employers' contributions on page 59 are not required parts of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of





America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated December 5, 2003 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

Boston, Massachusetts
December 5, 2003

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2003

The City of Boston provides this Management's Discussion and Analysis to provide additional information to the readers of the City's Basic Financial Statements. This narrative overview and analysis of the financial activities of the City of Boston is for the fiscal year ended June 30, 2003. Readers are encouraged to consider this information in conjunction with the additional information that is furnished in the City's Comprehensive Annual Financial Report (CAFR).

The City of Boston is in its second year of implementing new reporting standards with significant changes in content and structure from years prior to fiscal year end June 30, 2002.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Boston's financial statements. The City's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information regarding historical pension information. These components are described below:

Basic Financial Statements

The financial statements include two types of financial statements that present different views of the City – the ***Government-Wide Financial Statements*** and the ***Fund Financial Statements***. These financial statements also include the ***Notes to the Financial Statements*** that explain some of the information in the financial statements and provide more detail.

Government-Wide Financial Statements

The *government-wide financial statements* provide a broad view of the City's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the City's financial position, which assists in assessing the City's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The *statement of net assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the City.

Both of the above financial statements have separate sections for the three different types of city programs or activities. These three types of activities are:

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2003

Governmental Activities – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal and state grants). Most services normally associated with city government fall into this category, including general government, human services, public safety, public works, property and development, parks and recreation, library, schools, county, public health programs, judgment and claims, retirement costs, state and district assessments, debt service, and other employee benefits.

Business-Type Activities – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the City include the operations of the City of Boston Convention Center Bond Fund and the Hospital Bond Fund.

Discretely Presented Component Units – These are operations for which the City has financial accountability, but they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above.

The City's four discretely presented major component units are:

Boston Public Health Commission

Boston Redevelopment Authority

Economic Development Industrial Corporation

Trustees of the Boston Public Library

Complete financial statements of the individual component units can be obtained from their respective administrative offices. Additional information about the City's component units is presented in the notes to the financial statements.

The government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The *fund financial statements* focus on individual parts of the city government, reporting the City's operations in more detail than the government-wide statements. All of the funds of the City can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

1. Governmental Fund Financial Statements – Most of the basic services provided by the City are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2003

approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach, revenues are recorded when cash is received or when susceptible to accrual. Expenditures are recorded when liabilities are incurred and due. These statements provide a detailed short-term view of the City's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the City.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The City has four governmental funds. Each fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The City's three major governmental funds are – the General Fund, the Special Revenue Fund, and the Capital Projects Fund. All nonmajor governmental funds are combined in the "Other Governmental Funds" columns on these statements. The governmental funds financial statements can be found immediately following the government-wide statements.

Of the City's four governmental funds, the General Fund is the only fund for which a budget is legally adopted. The *Budgetary Statement or Statement of Revenues and Expenditures – Budgetary Basis* is presented on page 20. This statement provides a comparison of the original and final budget and the actual expenditures for the current and prior year.

In accordance with state law and regulations, the City's legally adopted general fund budget is prepared on a "budgetary" basis instead of accounting principles generally accepted in the United States of America (GAAP). Among the key differences between these two sets of accounting principles are that "budgetary" records property tax revenue as it is levied, while GAAP records it as it becomes susceptible to accrual, "budgetary" records certain activities and transactions in the general fund that GAAP records in separate funds, and "budgetary" records as an expenditure any amount raised to cover for a prior year deficit, and as a revenue any available funds raised from prior year surpluses, while GAAP ignores these impacts from prior years. The difference in accounting principles inevitably leads to varying results in excess or deficiency of revenues over expenditures. Additional information and a reconciliation of "budgetary" to GAAP statements is provided in note 4 of the financial statements.

2. Proprietary Funds Financial Statements – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers including local governments, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. No reconciliation is needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2003

The basic proprietary funds financial statements can be found immediately following the governmental fund financial statements.

3. Fiduciary Funds Financial Statements – These funds are used to account for resources held for the benefit of parties outside the City government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. They use the accrual basis of accounting.

The City's fiduciary funds are the Employee Retirement Funds (the State-Boston Retirement System and the Boston Retirement System), which accounts for the transactions, assets, liabilities, and net assets of the City employees' pension plan, and the Private Purpose Trust Funds, which includes money held and administered by the City on behalf of third parties.

The fiduciary funds financial statements can be found immediately following the proprietary fund financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the fiduciary funds' financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information, which includes a schedule of funding progress and a schedule of employer contributions for the State-Boston Retirement System.

Government-Wide Financial Analysis

This analysis is based on the statement of net assets and statement of activities found on pages 14 and 15 of the financial statements.

Government-Wide Highlights:

Net Assets – The total net assets of the City exceeded its liabilities at fiscal year ending June 30, 2003 by \$240.7 million (presented as “net assets”). Of this amount, \$37.4 million was reported as “unrestricted net assets.” Unrestricted net assets represent the amount available to be used to meet the City's ongoing obligations to citizens and creditors.

Changes in Net Assets – The City's total net assets increased by \$43.5 million in fiscal year 2003. Net assets of governmental activities increased by \$66.6 million, while net assets of the business-type activities showed a decrease of \$23.1 million.

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2003

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's combined net assets (government and business-type activities) totaled \$240.7 million at the end of 2003, compared to \$197.2 million at the end of the previous year.

The components of net assets are comprised of the following: the investment in capital assets such as land, buildings, equipment, and infrastructure (road, bridges, and other immovable assets), less any related debt used to acquire that asset that is still outstanding – the amount is a deficit of \$6.8 million indicating that the amount of capital debt outstanding exceeds the net book value of the City's fixed assets. The deficit in "Invested in capital assets, net of related debt" results in part from the capitalization threshold established by the City whereby capital assets of less than \$15,000 in cost are not capitalized for financial statement purposes, from the refunding of capital debt which results in monetary savings to the City, but often extends the life of the debt beyond the depreciable lives of the related capital assets and from other noncapitalized financing costs related to the debt. The City uses these capital assets to provide services to citizens; consequentially, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A large portion of the City's net assets (87.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of the current fiscal year, the City is reporting a positive balance for the government as a whole. The negative balance reported for business-type activities is offset by the positive balance reported for government activities. The negative balance in business-type activities is a result of special obligation bonds outstanding at year-end. These costs are intended to be covered by user charges, grants and lease receipts from third parties.

City of Boston's Net Assets-Primary Government
(In thousands)

	Governmental activities		Business-type activities		Totals	
	2003	2002	2003	2002	2003	2002
Current assets	\$ 923,629	905,639	58,267	68,079	981,896	973,718
Capital assets	889,665	781,942	—	—	889,665	781,942
Other assets	2,352	2,102	3,360	1,555	5,712	3,657
Due from others	33,679	19,250	104,869	129,103	138,548	148,353
Total assets	1,849,325	1,708,933	166,496	198,737	2,015,821	1,907,670
Noncurrent liabilities	842,966	1,014,892	236,256	251,150	1,079,222	1,266,042
Other liabilities	683,057	437,311	12,822	7,104	695,879	444,415
Total liabilities	1,526,023	1,452,203	249,078	258,254	1,775,101	1,710,457
Invested in capital assets, net of related debt	(6,784)	(92,711)	—	—	(6,784)	(92,711)
Restricted	210,077	266,999	—	—	210,077	266,999
Unrestricted	120,009	82,442	(82,582)	(59,517)	37,427	22,925
Total net assets	\$ 323,302	256,730	(82,582)	(59,517)	240,720	197,213

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2003

City of Boston Changes in Net Assets-Primary Government

(In thousands)

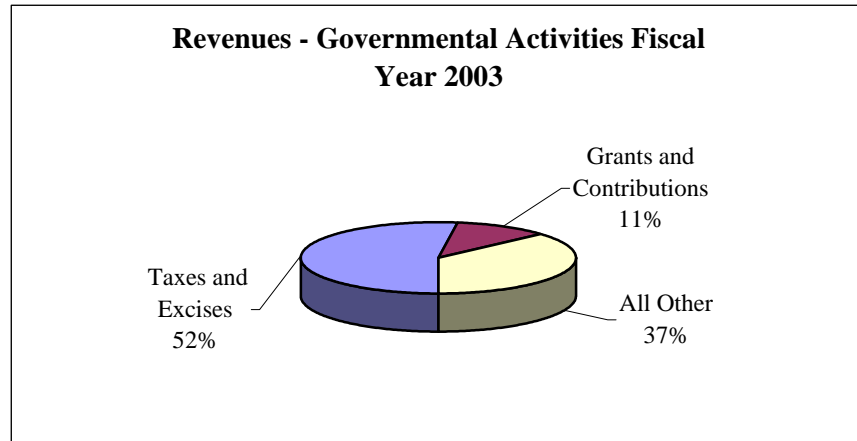
	Governmental activities		Business-type activities		Totals	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program revenues:						
Charges for services	\$ 127,367	130,854	12,877	38,695	140,244	169,549
Operating grants and contributions	503,696	541,589	—	—	503,696	541,589
Capital grants and contributions	30,327	30,946	—	—	30,327	30,946
General revenues:						
Taxes:						
Property taxes, levied for general purposes	1,005,684	967,762	—	—	1,005,684	967,762
Excises	95,157	109,503	23,348	5,079	118,505	114,582
Payment in lieu of taxes	40,910	36,332	—	—	40,910	36,332
Grants and contributions not restricted	234,719	272,150	—	—	234,719	272,150
Investment income	18,655	23,097	8,377	8,594	27,032	31,691
Miscellaneous	33,245	33,568	—	7,303	33,245	40,871
Total revenues	<u>2,089,760</u>	<u>2,145,801</u>	<u>44,602</u>	<u>59,671</u>	<u>2,134,362</u>	<u>2,205,472</u>
Program expenses:						
General government	60,112	84,350	—	—	60,112	84,350
Human services	32,357	11,730	—	—	32,357	11,730
Public safety	420,108	429,216	—	—	420,108	429,216
Public works	94,316	82,891	—	—	94,316	82,891
Property and development	93,265	112,787	—	—	93,265	112,787
Parks and recreation	19,766	18,504	—	—	19,766	18,504
Library	33,938	38,112	—	—	33,938	38,112
Schools	791,540	768,428	—	—	791,540	768,428
Public health programs	63,897	64,537	—	—	63,897	64,537
County	100,745	109,340	—	—	100,745	109,340
Judgments and claims	2,880	2,724	—	—	2,880	2,724
Retirement costs	74,720	82,034	—	—	74,720	82,034
Other employee benefits	114,209	101,059	—	—	114,209	101,059
State and district assessments	69,009	67,769	—	—	69,009	67,769
Repairs and maintenance	21,929	—	—	—	21,929	—
Interest on long-term debt	48,397	38,514	—	—	48,397	38,514
Convention center	—	—	40,786	19,035	40,786	19,035
Hospital	—	—	8,881	8,232	8,881	8,232
Total program expenses	<u>2,041,188</u>	<u>2,011,995</u>	<u>49,667</u>	<u>27,267</u>	<u>2,090,855</u>	<u>2,039,262</u>
Excess (deficiency) before special items and transfers	48,572	133,806	(5,065)	32,404	43,507	166,210
Transfers	18,000	—	(18,000)	—	—	—
Special Item – gain on sale of capital assets	—	13,300	—	—	—	13,300
Change in net assets	66,572	147,106	(23,065)	32,404	43,507	179,510
Net assets – beginning	<u>256,730</u>	<u>109,624</u>	<u>(59,517)</u>	<u>(91,921)</u>	<u>197,213</u>	<u>17,703</u>
Net assets – ending	<u>\$ 323,302</u>	<u>256,730</u>	<u>(82,582)</u>	<u>(59,517)</u>	<u>240,720</u>	<u>197,213</u>

CITY OF BOSTON, MASSACHUSETTS

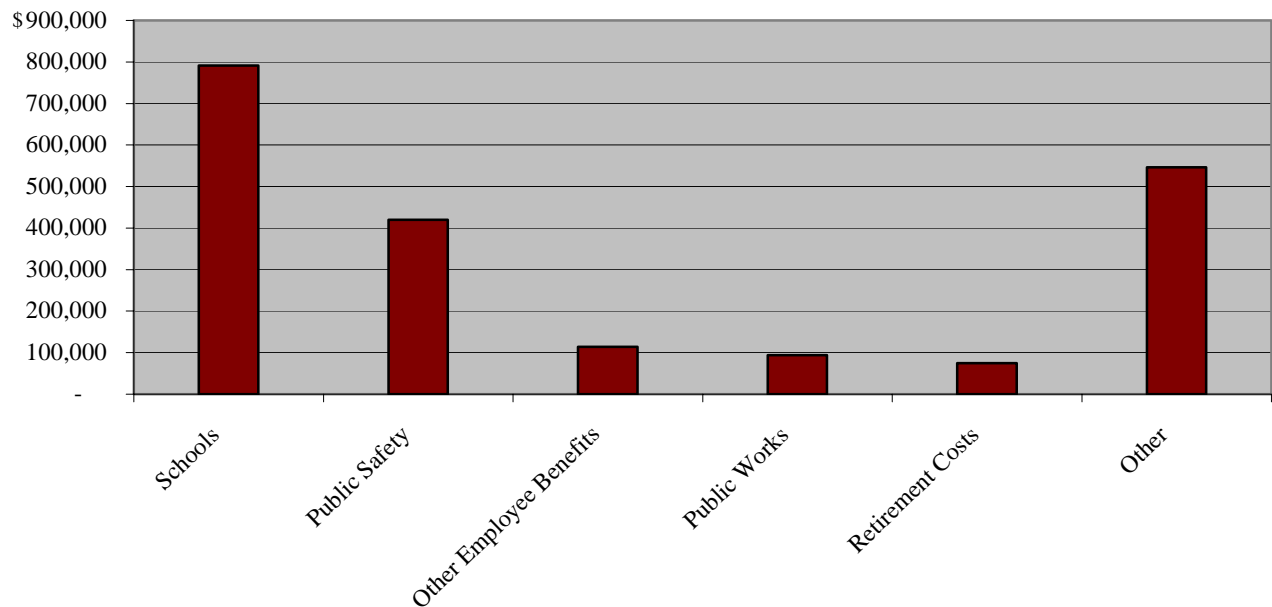
Required Supplementary Information

Management's Discussion and Analysis

June 30, 2003



**Expenses – Governmental Activities
Fiscal Year 2003
(In thousands)**



CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2003

Governmental Activities

The City's governmental activities net assets increased by \$66.6 million from the prior year. The City's two largest sources of revenues were property and excise taxes of \$1.10 billion and \$768.7 million operating and capital grants from the federal and state governments. Approximately 52.2% of the City's total revenue came from property and excise taxes, while 36.5% resulted from grants and contributions (including federal aid). Charges for various goods and services, interest, payments in lieu of taxes and other miscellaneous revenues totaled \$238.2 million. The City's expenses cover a range of services. The largest expenses were for schools (\$791.5 million), public safety (\$420.1 million), other employee benefits (\$114.2 million), county (\$100.7), public works (\$94.3 million), property and development (\$93.3 million), and public health programs (\$63.9 million). In 2003, governmental activities expenses exceeded program revenues (i.e., user charges, operating grants and capital grants) by \$1.38 billion. This shortfall was covered primarily through taxes (\$1.10 billion) and nonspecific grants of (\$234.7 million).

Business-Type Activities

Net assets from business-type activities fell by \$23.1 million during fiscal 2003. This change in net assets resulted primarily from expenses associated with the construction of the Convention Center exceeding grants from the Commonwealth of Massachusetts, offset by the excess of excise taxes generated by the enterprise fund over the amount transferred to the general fund.

Financial Analysis of the City's Individual Funds

This analysis is based on the Fund Financial Statements on pages 16 through 26.

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Fund Highlights:

Governmental Funds – Fund Balances – As of the close of fiscal year 2003, the City's governmental funds reported a combined ending fund balance of \$701.4 million, an increase of \$60.2 million from the prior year. Of this total amount, \$365.4 million represents the "unreserved and undesignated fund balances" with \$331.5 million of this amount in the general fund.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's financial position at the end of the fiscal year.

General Fund – Fund Balance – The general fund is the chief operating fund of the City. The City's General Fund – Fund Balance Policy states in part to maintain a GAAP undesignated fund balance in the general fund that is 10%, or higher, of GAAP general fund operating expenditures for the fiscal year. The GAAP undesignated fund balance at the end of fiscal year 2003 was \$331.5 million, which represents approximately 19.1% of GAAP general fund operating expenditures.

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2003

However, because the City is required to follow the statutory basis of accounting rather than GAAP for determining the amount of undesignated fund balance that can be appropriated, it is the statutory (not the GAAP) fund balance that is used to calculate "free cash." Free cash is the amount of statutory fund balance in the general fund, as certified by the Commonwealth of Massachusetts' Department of Revenue, that is available for appropriation and is generated when actual revenues, on a cash basis, exceeded budgeted amounts and encumbrances are less than appropriations, or both.

The City of Boston has established the General Fund — Capital Fund, Fund Balance Policy to ensure that the City maintains adequate levels of fund balance to mitigate current and future risks (i.e., revenue shortfalls and unanticipated expenditures). The policy in full states that the City shall maintain a GAAP undesignated fund balance in the general fund that is 10% or higher than the current fiscal year's GAAP general fund operating expenditures; and that the City shall only consider the certification of free cash (as defined by the Commonwealth of Massachusetts' Department of Revenue) in years where the appropriation of free cash shall not cause the fiscal year's GAAP undesignated fund balance to go below 10% of the fiscal year's GAAP general fund expenditures while maintaining a Budgetary Undesignated Fund Balance between 5% and 10% of Budgetary Operating Expenses.

The City shall only consider the appropriation of certified free cash to offset: (1) certain fixed costs such as pension contributions and related postretirement health benefits; and/or (2) to fund extraordinary and nonrecurring events as determined and certified by the City Auditor.

The general fund budgetary highlights include ending fiscal year 2003 with a \$1.8 million dollar surplus. This represents the City's 18th consecutive year with a balanced budget. Changes to the original budget resulted in no change to the overall budget. However, there were two supplemental appropriations in the amount of \$592,055 from reserve for collective bargaining to the School Department. These appropriations were used for salary and wage increases. These supplemental appropriations were funded from available revenue sources. During the year, revenues exceeded budgetary estimates, thus eliminating the need to draw on existing fund balance.

Special Revenue – Fund Balance – The special revenue fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The fiscal year 2003 special revenue fund balance is reported at \$111.5 million, a \$9.2 million decrease from fiscal year 2002.

Capital Projects Fund – Fund Balance – The capital projects fund accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds and trust funds. The fiscal year 2003 capital projects fund balance is \$56.8 million. The \$17.9 million decrease from fiscal year 2002 is attributable to the timing of borrowing of General Obligation Bond sales.

Other Governmental Funds – Fund Balance – Other governmental funds account for assets held by the City in a trustee capacity or as an agent. The fiscal year 2003 other governmental funds fund balance is \$41.8 million, a \$2.0 million decrease from fiscal year 2002.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities. This information is presented on the same basis of accounting, but in more detail.

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2003

The City's proprietary funds net assets for fiscal year 2003 are a negative \$82.6 million. As stated in the discussion on the government-wide financial statements, the negative balance in the proprietary funds is a result of the Convention Center special obligation bonds and Hospital special obligation bonds outstanding at year-end.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental activities as of June 30, 2003, included \$1.88 billion of cost and accumulated depreciation of \$986.3 million, leaving a net book value of \$889.7 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and have value only to the City, such as roads, bridges, streets, sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the City's investment in capital assets for the current fiscal year was about 13.8% in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$145.9 million for the year. Most of this amount was used to construct or reconstruct roads and bridges. Depreciation charges for the year totaled \$38.2 million. Additional information on the City's capital assets can be found in note 8 of the notes to the basic financial statements.

Long-term Debt

Debt Administration – The authority of the City to incur debt is governed by federal and state laws that restrict the amounts and purposes for which a municipality can incur debt. At year-end, the City had \$873.9 million in General Obligation bonds principal outstanding – an increase of 5.4% over last year.

The key factors in this increase were the issuances of the \$48.6 million 2002 Series B General Obligation Refunding Bonds, \$43.1 million 2002 Series C General Obligation Refunding Bonds and \$162.0 million 2003 Series A General Obligation Bonds.

General obligation bonds are backed by the full faith and credit of the City, including the City's power to levy additional taxes to ensure repayment of the debt. Accordingly, all general obligation debt currently outstanding has been approved by a vote of the City Council.

The long-term debt to be paid by the business-type activities decreased \$15.4 million due to the issuance of \$127.8 million of Boston City Hospital Special Obligation Refunding Bonds, the proceeds of which were used to repay a portion of outstanding revenue with a face amount of \$141.1 million referring to the Boston City Hospital Revenue Refunding Bonds Series B.

Other Debt – The City's general long-term notes and other obligations decreased by \$8.0 million, or (2.2%), during the current fiscal year. The key factors were reductions of compensated absences of \$7.6 million, judgments and claims of \$1.8 million, and leases of \$8.5 million offset by a net increase in BAN's outstanding of \$9.0 million.

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information

Management's Discussion and Analysis

June 30, 2003

Additional information on the City's long-term debt obligations can be found in note 10 of the notes to the basic financial statements.

Requests for Information

This financial report is designed to provide a general overview of the City of Boston's finances for all of the City of Boston's citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: City of Boston, Auditing Department, Boston City Hall, Room M-4, Boston, MA 02201.

CITY OF BOSTON, MASSACHUSETTS

Statement of Net Assets

June 30, 2003

(In thousands)

	Primary government			Component units
	Governmental activities	Business-type activities	Total	
Assets:				
Cash and investments	\$ 673,744	841	674,585	161,131
Cash and investments held by trustees	45,869	56,286	102,155	4,901
Receivables, net:				
Property taxes	15,163	—	15,163	—
Intergovernmental	163,297	1,140	164,437	—
Other	25,556	—	25,556	109,867
Other assets	2,352	3,360	5,712	164,315
Capital assets:				
Nondepreciable	488,218	—	488,218	18,780
Depreciable, net	401,447	—	401,447	37,834
Internal balances	18,000	(18,000)	—	—
Due from BMC	—	—	—	10,523
Due from components units	15,679	122,869	138,548	—
Total assets	<u>1,849,325</u>	<u>166,496</u>	<u>2,015,821</u>	<u>507,351</u>
Liabilities:				
Warrants and accounts payable	53,145	—	53,145	113,550
Accrued liabilities – current:				
Compensated absences	45,724	—	45,724	—
Judgments and claims	13,973	—	13,973	—
Payroll and related costs	104,670	—	104,670	—
Deposits and other	72,791	3,127	75,918	2,907
Current portion of long-term debt and leases	95,489	9,695	105,184	3,695
Due to BMC	—	—	—	36,178
Due to primary government	—	—	—	138,548
Deferred revenue	47,861	—	47,861	49,027
Noncurrent liabilities:				
Bonds due in more than one year	793,444	236,256	1,029,700	18,383
Other due in more than one year	39,690	—	39,690	—
Leases payable	9,832	—	9,832	—
Bond anticipation notes payable	96,000	—	96,000	—
Other noncurrent liabilities	153,404	—	153,404	23,571
Total liabilities	<u>1,526,023</u>	<u>249,078</u>	<u>1,775,101</u>	<u>385,859</u>
Net assets:				
Investment in capital assets, net of related debt	(6,784)	—	(6,784)	32,959
Restricted for:				
Capital projects	56,770	—	56,770	—
Other purposes	153,307	—	153,307	59,096
Unrestricted	120,009	(82,582)	37,427	29,437
Total net assets	<u>\$ 323,302</u>	<u>(82,582)</u>	<u>240,720</u>	<u>121,492</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Activities

Year ended June 30, 2003

(In thousands)

		Program revenues			Net (expense) revenue and changes in net assets			
Functions/programs	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Primary government		Component units	
					Governmental activities	Business-type activities		Total
Primary government:								
Governmental activities:								
General government	\$ 60,112	12,679	17,930	—	(29,503)	—	(29,503)	—
Human services	32,357	4	7,436	—	(24,917)	—	(24,917)	—
Public safety	420,108	89,480	25,282	—	(305,346)	—	(305,346)	—
Public works	94,316	4,196	480	13,095	(76,545)	—	(76,545)	—
Property and development	93,265	1,348	67,346	—	(24,571)	—	(24,571)	—
Parks and recreation	19,766	—	831	—	(18,935)	—	(18,935)	—
Library	33,938	351	4,273	—	(29,314)	—	(29,314)	—
Schools	791,540	18,223	290,816	17,232	(465,269)	—	(465,269)	—
Public health programs	63,897	—	—	—	(63,897)	—	(63,897)	—
County	100,745	—	89,302	—	(11,443)	—	(11,443)	—
Judgments and claims	2,880	—	—	—	(2,880)	—	(2,880)	—
Retirement costs	74,720	1,086	—	—	(73,634)	—	(73,634)	—
Other employee benefits	114,209	—	—	—	(114,209)	—	(114,209)	—
State and district assessments	69,009	—	—	—	(69,009)	—	(69,009)	—
Repairs and maintenance	21,929	—	—	—	(21,929)	—	(21,929)	—
Interest on long-term debt	48,397	—	—	—	(48,397)	—	(48,397)	—
Total governmental activities	2,041,188	127,367	503,696	30,327	(1,379,798)	—	(1,379,798)	—
Business-type activities:								
Convention Center	40,786	—	12,877	—	—	(27,909)	(27,909)	—
Hospital bonds	8,881	—	—	—	—	(8,881)	(8,881)	—
Total business-type activities	49,667	—	12,877	—	—	(36,790)	(36,790)	—
Total primary government	\$ 2,090,855	127,367	516,573	30,327	(1,379,798)	(36,790)	(1,416,588)	—
Component units:								
Boston Public Health Commission	\$ 116,616	—	120,524	—	—	—	—	3,908
Boston Redevelopment Authority	36,454	—	34,627	—	—	—	—	(1,827)
Trustees of the Public Library of the City of Boston	13,369	716	10,145	—	—	—	—	(2,508)
Economic Development and Industrial Corporation of Boston	33,414	—	34,143	—	—	—	—	729
Total component units	\$ 199,853	716	199,439	—	—	—	—	302
General revenues:								
Taxes:								
Property taxes, levied for general purposes					\$ 1,005,684	—	1,005,684	—
Excises					95,157	23,348	118,505	—
Payments in lieu of taxes					40,910	—	40,910	—
Grants and contributions not restricted					234,719	—	234,719	—
Investment income					18,655	8,377	27,032	1,717
Miscellaneous					33,245	—	33,245	1,071
Transfers					18,000	(18,000)	—	—
Total general revenues and transfers					1,446,370	13,725	1,460,095	2,788
Change in net assets					66,572	(23,065)	43,507	3,090
Net assets – beginning					256,730	(59,517)	197,213	118,402
Net assets – ending					\$ 323,302	(82,582)	240,720	121,492

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Balance Sheet – Governmental Funds

June 30, 2003

(In thousands)

Assets	General	Special revenue	Capital projects	Other governmental funds	Total governmental funds
Cash and investments	\$ 529,315	67,535	62,761	—	659,611
Cash and investments held by trustees	—	—	3,788	42,081	45,869
Receivables, net:					
Property taxes	41,175	—	—	—	41,175
Intergovernmental	79,528	83,769	—	—	163,297
Departmental and other	20,386	165	—	164	20,715
Total receivables	141,089	83,934	—	164	225,187
Due from other funds	18,000	1,044	101	—	19,145
Due from component units	15,679	—	—	—	15,679
Total assets	<u>\$ 704,083</u>	<u>152,513</u>	<u>66,650</u>	<u>42,245</u>	<u>965,491</u>
Liabilities and Fund Balances					
Liabilities:					
Warrants and accounts payable	\$ 33,603	9,230	9,845	450	53,128
Accrued liabilities:					
Compensated absences	10,259	—	—	—	10,259
Payroll and related costs	104,670	—	—	—	104,670
Deposits and other	4,174	31,557	—	—	35,731
Deferred revenue	57,952	—	—	—	57,952
Due to other funds	1,765	—	—	—	1,765
Other liabilities	306	214	35	—	555
Total liabilities	<u>212,729</u>	<u>41,001</u>	<u>9,880</u>	<u>450</u>	<u>264,060</u>
Fund balances (deficit):					
Reserved for:					
Encumbrances	20,787	49,019	84,184	176	154,166
Future appropriations	—	—	42,875	—	42,875
Unreserved:					
Designated for subsequent years expenditures	139,028	—	—	—	139,028
Undesignated	331,539	62,493	(70,289)	—	323,743
Undesignated, reported in permanent funds	—	—	—	41,619	41,619
Total fund balance	<u>491,354</u>	<u>111,512</u>	<u>56,770</u>	<u>41,795</u>	<u>701,431</u>
Total liabilities and fund balances	<u>\$ 704,083</u>	<u>152,513</u>	<u>66,650</u>	<u>42,245</u>	<u>965,491</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2003

(In thousands)

Total fund balance – Governmental Funds	\$ 701,431
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:	
Land	14,466
Land improvements	16,697
Buildings and improvements	984,820
Furniture and equipment	142,349
Infrastructure	243,891
Construction in progress	473,751
Less accumulated depreciation	(986,309)
	889,665
Adjust deferred revenues and receivables to record revenues on an accrual basis	(11,359)
Internal service funds are included in the government-wide statements	7,930
Bond issuance costs are capitalized in the government-wide statements	2,112
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
General obligation bonds and notes	(1,011,464)
Capital leases	(17,492)
Bond issue premiums	(12,984)
Deferred bond gains/losses	7,485
Accrued interest on bonds	(16,300)
Compensated absences	(151,286)
Landfill	(14,578)
Judgments and claims	(29,098)
Tax abatements	(20,760)
	(1,266,477)
Net assets of governmental activities	\$ 323,302

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds

Year ended June 30, 2003

(In thousands)

	General	Special revenue	Capital projects	Other governmental funds	Total governmental funds
Revenues:					
Real and personal property taxes	\$ 1,053,945	—	—	—	1,053,945
Excises	94,133	—	—	—	94,133
Payments in lieu of taxes	40,910	—	—	—	40,910
Fines	59,187	19	—	—	59,206
Investment income	8,951	479	—	60	9,490
Licenses and permits	30,217	57	—	—	30,274
Departmental and other	62,373	13,170	—	4,136	79,679
Intergovernmental	444,751	311,347	13,095	—	769,193
Total revenues	1,794,467	325,072	13,095	4,196	2,136,830
Expenditures:					
Current:					
General government	53,343	8,385	—	4,325	66,053
Human services	24,738	7,231	—	—	31,969
Public safety	394,692	23,119	—	—	417,811
Public works	86,819	186	—	—	87,005
Property and development	29,260	63,851	—	—	93,111
Parks and recreation	14,622	831	—	—	15,453
Library	27,715	5,186	—	—	32,901
Schools	654,958	131,383	—	—	786,341
Public health programs	63,897	—	—	—	63,897
County	4,539	96,452	—	—	100,991
Judgments and claims	2,880	—	—	—	2,880
Retirement costs	74,720	—	—	—	74,720
Other employee benefits	114,512	—	—	—	114,512
State and district assessments	69,009	—	—	—	69,009
Capital outlays	2,971	—	164,891	—	167,862
Debt service	121,184	13,841	25,000	—	160,025
Total expenditures	1,739,859	350,465	189,891	4,325	2,284,540
Excess (deficiency) of revenues over expenditures	54,608	(25,393)	(176,796)	(129)	(147,710)
Other financing sources (uses):					
Long-term debt and capital leases issued	—	4,094	304,440	—	308,534
Payments to escrow agent to refund debt	—	—	(130,740)	—	(130,740)
Premiums on long-term debt issued	—	12,100	—	—	12,100
Transfers in	34,637	—	—	—	34,637
Transfers out	—	—	(14,788)	(1,849)	(16,637)
Total other financing sources (uses)	34,637	16,194	158,912	(1,849)	207,894
Net change in fund balances	89,245	(9,199)	(17,884)	(1,978)	60,184
Fund balance – beginning	402,109	120,711	74,654	43,773	641,247
Fund balance – ending	\$ 491,354	111,512	56,770	41,795	701,431

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities

Year ended June 30, 2003

Net change in fund balances – total governmental funds	\$ <u>60,184</u>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is depreciated over their estimated useful lives. Capital outlays (\$145,934) exceeded depreciation expense (\$38,211).	107,723
Tax revenues in the statement of activities that are not reported as revenues in the governmental funds.	(40,589)
Proceeds of long-term debt (\$308,534) increase long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Repayment of bond principal (\$269,843) is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.	(38,691)
Bond premiums net (\$11,776) increase the long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Bond issuance costs net (\$1,616) are expenditures in the governmental funds, but are deferred assets in the statement of net assets. This is the amount by which premiums exceeded issuance costs.	(10,160)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This amount represents the increase in liabilities for judgments and claims (\$6,648), compensated absences (\$2,109) and interest payable (\$3,901) offset by a decrease in landfill liabilities (\$293).	(12,365)
Net income from the internal service fund which is presented in the statement of activities, but not in the governmental funds.	<u>470</u>
Change in net assets of governmental activities	\$ <u><u>66,572</u></u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS
Statement of Revenues and Expenditures – Budgetary Basis
General Fund – Budget and Actual

Year ended June 30, 2003
(with comparative actual amounts for 2002)

(In thousands)

		2003		Variance	2002
	Original	Final	Actual	over	Actual
	budget	budget		(under)	
Revenues and other available funds:					
Real and personal property taxes, net	\$ 995,453	995,453	996,030	577	926,336
Excises	103,006	103,006	118,405	15,399	112,304
Commonwealth of Massachusetts	521,737	521,737	498,217	(23,520)	541,456
Departmental and other revenue	46,722	46,722	54,720	7,998	62,193
Fines	61,497	61,497	58,985	(2,512)	60,659
Payments in lieu of taxes	34,123	34,123	40,910	6,787	36,332
Investment income	10,750	10,750	8,552	(2,198)	14,801
Licenses and permits	25,218	25,218	30,146	4,928	29,651
Other available funds	26,725	26,725	24,849	(1,876)	4,568
Total revenues and other available funds	1,825,231	1,825,231	1,830,814	5,583	1,788,300
Expenditures:					
General government	68,522	69,232	65,401	3,831	70,702
Human services	24,972	25,829	24,936	893	6,398
Public safety	404,730	403,916	408,849	(4,933)	405,150
Public works	82,542	82,542	86,599	(4,057)	74,833
Property and development	35,062	35,062	34,744	318	41,630
Parks and recreation	14,785	14,785	14,680	105	16,071
Library	28,008	28,008	27,726	282	28,813
Schools	650,026	650,618	650,600	18	639,710
Boston Public Health Commission	63,897	63,897	63,897	—	64,005
County	4,537	4,737	4,737	—	4,537
Judgments and claims	3,100	2,166	2,166	—	5,000
Other employee benefits	111,092	115,423	115,164	259	107,473
Retirement costs	139,325	139,325	139,325	—	135,710
State and district assessments	68,378	68,498	69,009	(511)	67,769
Debt requirements	126,255	121,193	121,184	9	115,332
Total expenditures	1,825,231	1,825,231	1,829,017	(3,786)	1,783,133
Excess of revenues and other available funds over expenditures	\$ —	—	1,797	1,797	5,167

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Net Assets – Proprietary Funds

June 30, 2003

(In thousands)

	Enterprise funds			
	Convention center	Hospital revenue bonds	Total	Internal service
Assets:				
Current assets:				
Cash and investments	\$ 841	—	841	14,133
Cash and investments held by trustees	35,471	20,815	56,286	—
Receivables, net	1,140	—	1,140	279
Due from component units	—	122,869	122,869	—
Due from other funds	—	—	—	620
Other assets	1,493	1,867	3,360	240
Total current assets	38,945	145,551	184,496	15,272
Total assets	38,945	145,551	184,496	15,272
Liabilities:				
Current liabilities:				
Warrants and accounts payable	—	—	—	17
Accrued liabilities	935	2,192	3,127	7,325
Due to other funds	18,000	—	18,000	—
Current portion of long-term debt	2,310	7,385	9,695	—
Total current liabilities	21,245	9,577	30,822	7,342
Noncurrent liabilities:				
Special obligation bonds	112,480	—	112,480	—
Revenue bonds	—	123,776	123,776	—
Total noncurrent liabilities	112,480	123,776	236,256	—
Total liabilities	133,725	133,353	267,078	7,342
Net assets:				
Unrestricted	(94,780)	12,198	(82,582)	7,930
Total net assets	\$ (94,780)	12,198	(82,582)	7,930

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds

Year ended June 30, 2003

(In thousands)

	Enterprise funds			
	Convention center	Hospital revenue bonds	Total	Internal service
Operating revenues:				
Contributions	\$ —	—	—	72,626
Excise taxes – pledged for debt service	23,348	—	23,348	—
Departmental and other – pledged for debt service	—	—	—	167
Total operating revenues	23,348	—	23,348	72,793
Operating expenses:				
Payments made on behalf of State	33,845	—	33,845	—
Health benefits	—	—	—	72,323
Total operating expenses	33,845	—	33,845	72,323
Operating (loss) income	(10,497)	—	(10,497)	470
Nonoperating revenue (expense):				
Intergovernmental – state grants	12,877	—	12,877	—
Investment earnings – pledged for debt service	—	7,725	7,725	—
Investment earnings – other	652	—	652	—
Interest expense	(6,941)	(8,881)	(15,822)	—
Total nonoperating revenue (expense)	6,588	(1,156)	5,432	—
Income before transfers	(3,909)	(1,156)	(5,065)	470
Transfer to general fund	(18,000)	—	(18,000)	—
Change in net assets	(21,909)	(1,156)	(23,065)	470
Total net assets – beginning	(72,871)	13,354	(59,517)	7,460
Total net assets – ending	\$ (94,780)	12,198	(82,582)	7,930

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS
Statement of Cash Flows – Proprietary Fund Types
Year ended June 30, 2003
(In thousands)

	Enterprise funds			
	Convention center	Hospital revenue bonds	Total	Internal service
Cash flows from operating activities:				
Cash received from others	\$ 23,348	—	23,348	72,498
Other cash received	—	—	—	167
Cash paid to vendors	(466)	—	(466)	(70,584)
Cash payments on behalf of State	(33,379)	—	(33,379)	—
Net cash (used) provided in operations	(10,497)	—	(10,497)	2,081
Cash flows from noncapital financing activities:				
Grants received from state	14,337	—	14,337	—
Interest paid on debt	(6,213)	(6,689)	(12,902)	—
Lease receipts	—	6,234	6,234	—
Bond issue costs	—	(1,867)	(1,867)	—
Repayment of long-term debt	(2,100)	(9,934)	(12,034)	—
Net cash provided (used) by noncapital financing activities	6,024	(12,256)	(6,232)	—
Cash flows from investing activities:				
Investment income	652	7,725	8,377	—
Net cash provided by investing activities	652	7,725	8,377	—
(Decrease) increase in cash and cash equivalents	(3,821)	(4,531)	(8,352)	2,081
Cash and cash equivalents, beginning of year	40,133	25,346	65,479	12,052
Cash and cash equivalents, end of year	\$ 36,312	20,815	57,127	14,133

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS
Statement of Cash Flows – Proprietary Fund Types
Year ended June 30, 2003
(In thousands)

	Enterprise funds			
	Convention center	Hospital revenue bonds	Total	Internal service
Reconciliation of operating income to cash provided by operating activities:				
Operating income (loss)	\$ (10,497)	—	(10,497)	470
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Changes in operating assets and liabilities:				
Accounts receivable	—	—	—	(128)
Other assets	—	—	—	1,366
Due (to) from other funds	—	—	—	107
Accounts payable and accrued liabilities	—	—	—	266
Net cash (used) provided by operating activities	\$ <u>(10,497)</u>	<u>—</u>	<u>(10,497)</u>	<u>2,081</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS
Statement of Fiduciary Net Assets – Fiduciary Funds
June 30, 2003
(In thousands)

	Employee retirement plans	Private purpose trusts	Agency funds
Assets:			
Cash and cash equivalents	\$ 4,795	75,168	2,802
Receivables:			
Interest and dividends	16,783	—	—
Securities sold	187,033	—	—
Other	78,815	1,063	—
Total receivables	282,631	1,063	—
Due from other funds	14	—	—
Investments, at fair value:			
Money market	768,719	—	—
MMDT	24,575	—	—
Short-term investments	159,038	—	—
Domestic equity securities	712,712	—	—
Domestic debt securities	315,598	—	—
International equity	288,072	—	—
International debt	105,414	—	—
Real estate	221,683	—	—
Venture capital funds	59,789	—	—
Total investments	2,655,600	—	—
Securities lending short-term collateral investment pool	190,801	—	—
Other assets	—	30	—
Total assets	3,133,841	76,261	2,802
Liabilities:			
Accounts payable	10,687	2,055	—
Securities purchased	259,449	—	—
Collateral held on securities lending	190,801	—	—
Refunds payable and other	—	—	2,802
Total liabilities	460,937	2,055	2,802
Net assets:			
Held in trust for pension benefits and other purposes	\$ 2,672,904	74,206	

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS
Statement of Changes in Fiduciary Net Assets –
Fiduciary Funds

Year ended June 30, 2003

(In thousands)

	Employee retirement plans	Private purpose trusts
Additions:		
Contributions:		
Employers	\$ 156,214	—
Employees	99,713	—
Donations and other	—	817
Total contributions	<u>255,927</u>	<u>817</u>
Investment earnings:		
Net appreciation (depreciation) in the fair value of investments	(369,731)	18,907
Interest and dividends	75,610	472
Less investment expenses	(8,921)	—
Net investment (losses) earnings	(303,042)	19,379
Intergovernmental	24,315	—
Total (loss) additions	<u>(22,800)</u>	<u>20,196</u>
Deductions:		
Benefits	259,169	—
Reimbursement to other systems	7,819	—
Refunds of contributions	12,967	—
Borrower rebates and fees	3,020	—
Administrative expenses	2,268	18,945
Total deductions	<u>285,243</u>	<u>18,945</u>
Change in net assets	(308,043)	1,251
Net assets, beginning of year	<u>2,980,947</u>	<u>72,955</u>
Net assets, end of year	<u>\$ 2,672,904</u>	<u>74,206</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

(1) The Financial Reporting Entity

The accounting policies followed in preparing the accompanying basic financial statements are as follows:

(a) *Primary Government*

The City of Boston (the City), incorporated as a town in 1630 and as a city in 1822, now exists under Chapter 486 of the Act of 1909 and Chapter 452 of the Acts of 1948 of the Commonwealth of Massachusetts (the Commonwealth) which, as amended, constitute the City's Charter. The Mayor is elected to a four-year term and serves as chief executive officer of the City. The Mayor has general supervision of and control over the City's boards, commissions, officers and departments. The legislative body of the City is the City Council, which consists of thirteen elected members serving two-year terms.

The accompanying basic financial statements present the City of Boston and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

(b) *Blended Component Unit Disclosure*

The following component unit has been presented as a blended component unit (included in the primary government) because the component unit provides services almost exclusively to the primary government:

State-Boston Retirement System (SBRS) – The SBRS is a defined benefit contributory retirement system created under state statute. It is administered by a Retirement Board comprised of five members: the City Auditor, who serves *ex officio*; two individuals elected by participants in the system; a fourth member appointed by the Mayor and a fifth member chosen by the other members. The SBRS provides pension benefits to retired City employees.

A complete set of financial statements for SBRS for the fiscal year ended December 31, 2002 can be obtained through the City Auditor's office, Room M-4, City Hall Plaza, Boston, Massachusetts 02201.

(c) *Discretely Presented Component Units Disclosure*

These component units are reported in a separate column to emphasize that they are legally separate from the City but are included because the City is financially accountable for and is able to impose its will on the organizations. Unless otherwise indicated, the notes to the basic financial statements pertain only to the primary government because certain disclosures of the component units are not significant relative to the total component units and to the primary government. A description of the component units, criteria for inclusion and their relationship with the City are as follows:

Boston Redevelopment Authority (BRA) – The BRA is a public body politic and corporate constituting the City's redevelopment authority and exercising the powers of a planning board for the City. The BRA is governed by a five-member board, four of whom are appointed by the Mayor. Its purpose is to provide planning support for major construction and redevelopment activity in the City.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

Economic Development and Industrial Corporation of Boston (EDIC) – The EDIC is a body politic and corporate and an instrumentality of the Commonwealth. It is governed by the same persons appointed as members of the BRA board. The EDIC has various powers to assist industrial development projects in the City and together with the BRA assists the City with its economic development function.

Boston Public Health Commission (PHC) – The PHC is a body politic and corporate and public instrumentality of the Commonwealth, established by Chapter 147 of the Acts of 1995. PHC is governed by a seven-member board, six of whom are appointed by the Mayor and confirmed by the City Council, and one of whom is the chief executive officer of the Boston Medical Center (BMC). The PHC is responsible for the implementation of public health programs in the City.

Trustees of the Public Library of the City of Boston (TPL) – The TPL is a nonprofit organization qualified as a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code. Trustees of TPL are appointed by the Mayor. The TPL was established to benefit the public library system of the City.

The financial statements of the discretely presented component units are included for their respective fiscal year-ends, which is on June 30, 2003.

Complete financial statements of these discretely presented component units can be obtained through the City Auditor's office, Room M-4, City Hall Plaza, Boston, Massachusetts 02201. In addition, condensed financial statements for the discretely presented component units are included in note 17.

(d) Related Organizations

The Mayor is also responsible for appointing members of the governing bodies of the Boston Housing Authority, Boston Industrial Development Finance Authority and Boston Water and Sewer Commission; however, the City's accountability for these organizations does not extend beyond making these appointments.

(2) Summary of Significant Accounting Policies

The accounting policies of the City of Boston, Massachusetts, conform to accounting principles generally accepted in the United States of America as applicable to governmental units as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies followed by the City:

(a) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as *program revenues*. Likewise, general revenues include all taxes.

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurements focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are “susceptible to accrual” (i.e., both measurable and available.) Revenues not considered to be *available* are recorded as deferred revenue.

The City applies the susceptible to accrual criteria to property taxes and intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, resources must be expended on the specific purpose or project before any amounts will be reimbursed to the City; therefore, revenues are recognized based upon the amount of expenditures incurred. In the other, resources are virtually unrestricted and are usually revocable by the grantor only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year-end.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and judgments and claims, are recorded only when payment is mature and due.

Proprietary Fund, Fiduciary Fund, and Component Unit Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from the collection of revenue pledged to repay debt. The principal operating revenues of the City's enterprise funds are lease receipts and excise taxes. The principal operating revenues of the City's internal service funds are charges to other funds for health insurance. Operating expenses for enterprise funds and internal service funds include the interest, administrative expenses, and vendor payments. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental funds – The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund accounts* principally for the activities funded by federal and state grant revenue sources and certain other revenues that are legally restricted to expenditures for specified purposes.

The *capital activities fund* accounts for bond proceeds and grant revenues used for the acquisition or construction of the City capital facilities.

Proprietary funds – The City reports the following major proprietary funds:

The *convention center fund* accounts for the City activities related to the financing for the construction of a new state-owned convention center. Revenue debt issued in connection with this fund is payable solely by specified local and state receipts.

The *hospital revenue bond fund* accounts for the activities related to the Boston City Hospital Revenue Bonds. These Bonds are payable solely from the mortgage note payments received from the Public Health Commission. These Bonds are repaid from a pledged revenue source from PHC.

Fiduciary funds – Additionally, the City reports the following fiduciary fund types:

The *private-purpose trust fund* is used to account for resources legally held in trust for the benefit of individuals, private organizations, or other governments.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

The *pension trust fund* accounts principally for the activities of the State-Boston Employees Retirement System, a blended component unit, which accumulates resources for pension benefit payments to retired City employees.

The *agency fund* is used to report funds held by the City in a purely custodial capacity.

The City also uses an internal service fund to account for its self-insured health costs. Although the fund is presented in a separate column in the accompanying financial statements, it is not considered a major fund.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

(c) *Cash Equivalents*

For purposes of the combined statement of cash flows, investments with original maturities of three months or less when purchased are considered to be cash equivalents.

(d) *Basis of Investment Valuation*

Investments are presented in the accompanying basic financial statements at fair value. Where applicable, fair values are based on quotations from national securities exchanges, except for certain investments of the State-Boston Retirement System which are described in notes 5 and 11. Further, income from investments is recognized in the same fund as the related investments.

(e) *Interfund Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

(f) *Uncollectible Tax and Other Receivables*

All receivables are shown net of an allowance for uncollectibles. Amounts considered to be uncollectible are based on the type and age of the related receivable.

(g) *Capital Assets*

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$25,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	30
Building improvements	20
Public domain infrastructure	30
System infrastructure	30
Machinery	10
Vehicles	3
Office equipment	3
Computer equipment	3

(h) *Compensated Absences*

Employees are granted sick and vacation leave in varying amounts. Upon retirement, termination or death, certain employees are compensated for unused sick and vacation leave (subject to certain limitations) at their then current rates of pay. The portion of the liability related to unused sick and vacation time that has matured or is due as of June 30, 2003 is related to the voluntary retirement incentive and is recorded in the governmental fund financial statements. The unamortized portion is presented in the government-wide statement of net assets. The liability for vacation leave is based on the amount earned but not used; for sick leave, it is based on the amount accumulated at the balance sheet date (vesting method). The liability for both amounts is calculated based on the pay or salary rates in effect at the balance sheet date.

(i) *Long-Term Obligations and Related Costs*

Premiums, discounts, and issue costs – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Arbitrage Rebate – Rebatable arbitrage earnings are calculated for the City by third parties and accounted for as a liability and a reduction of investment income in the general fund. At June 30, 2003, an accumulated arbitrage rebate liability of \$1.9 million was recorded in the general fund.

(j) Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(k) Tax Abatement Refunds

Matured tax abatement refunds that are due and payable at June 30 have been recorded as a liability in the general fund. Other refunds have been recorded in the government-wide statement of net assets.

(l) Landfill Postclosure Care Costs

State and federal regulations require the City to place a final cover on its Gardner Street landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. At June 30, 2003, 100% of the Gardner Street landfill site had been used and had not accepted solid waste for several years. The City has completed the covering of this site in accordance with applicable laws and regulations.

The liability for postclosure care is estimated based on current cost, which is the amount that would be paid if all equipment, facilities and services included in the estimate were acquired during the current period. Such costs are recognized as expenditures in the general fund to the extent that they are due or matured and are expected to be paid with expendable available financial resources. The total liability is reported in the government-wide statement of net assets. Expenditures related to the Gardner Street landfill site closure and postclosure care in fiscal 2003 were approximately \$293,000.

(m) Use of Estimates

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

(3) Short-Term debt

During fiscal year 2003, the City entered into a promissory note for \$25,000,000 for a period of twenty-seven days. The note had an interest rate of 1.5% and was used to pay off the February 1, 2001 Series A Bond anticipation note. The City's short-term debt is as follows (in thousands):

	<u>Interest rates</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>	<u>Due within one year</u>
Promissory note	1.5%	—	25,000	25,000	—	—

(4) Budgetary Data

The general fund is the only fund for which a budget is legally adopted. The budgets for all departments included in the general fund of the City, except the School Department, are prepared under the direction of the Mayor and City Council. The School Department budget is prepared under the direction of the School Committee.

Original and supplemental appropriations are submitted by the Mayor, approved by the City Council and lapse at year-end unless encumbered. The legal level of control over appropriations is at the department level. Amendments to the original budget must be approved by the City Council, except for a reallocation of appropriations of up to \$3 million which the Mayor may approve. Further, the City Auditor, with the approval of the Mayor, may make transfers from any appropriation to any other appropriation for purposes of eliminating deficits before closing the books for the fiscal year. After the close of the fiscal year, the City Auditor may, with the approval of the Mayor, apply any income, taxes and funds not disposed of and make transfers from any appropriation to any other appropriation for the purpose of closing the accounts for the fiscal year. There were no supplemental appropriations, other than the aforementioned transfers, for the fiscal year ended June 30, 2003.

The City must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2-1/2 (note 6). The tax levy must equal the sum of (a) the aggregate of all annual appropriations for expenditures; plus (b) the reserve accounts described in the following paragraph; plus (c) provision for the prior fiscal years' deficits, if any; less (d) the aggregate of all nonproperty tax revenues projected to be received by the City, including available funds, in amounts certified or approved by the Commonwealth for tax rate purposes.

In accordance with the 1986 amendments to the Funding Loan Act of 1982, the City has established two reserve funds. The first is a budget reserve fund which is required to be funded in stages to a final level of 2-1/2% of the prior year's overall departmental appropriations, except the School Department, by the beginning of fiscal 1990. It is available to be applied to extraordinary and unforeseen expenditures. The second is a separate reserve fund of 1% to 2-1/2% of the current year appropriation of the School Department to be applied to overexpenditures in that department.

The City's general fund budget is prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). The "actual" results column in the statement of revenues and expenditures – budgetary basis – general fund is presented on a "budgetary basis" to provide a meaningful

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

comparison of actual results with the budget. The major differences between the budget and GAAP basis, where applicable, are that:

- (a) Revenues are recorded when cash is received except for real estate and personal property taxes are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances and continuing appropriations which are recorded as the equivalent of expenditures (budget), as opposed to a reservation of fund balance (GAAP).
- (c) Certain activities and transactions are presented in separate funds (GAAP), rather than as components of the general fund (budget).
- (d) Amounts raised for the prior years' deficits and available funds from prior years' surpluses are recorded as revenue items (budget), but have no effect on GAAP revenues.

In addition, there are certain differences in classifications between revenues, expenditures and transfers.

The following reconciliation summarizes the differences between budgetary and GAAP basis accounting principles for the year ended June 30, 2003 (in thousands):

	<u>Revenue</u>	<u>Expenditures</u>	<u>Other financing sources (uses), net</u>	<u>Excess of revenue and other financing sources</u>
As reported on a budgetary basis	\$ 1,830,814	1,829,017	—	1,797
Adjustments:				
Revenues to modified accrual basis	56,323	—	—	56,323
Expenditures, encumbrances and accruals, net	—	(31,125)	—	31,125
Reclassifications:				
Parking meter revenue and expenditures to a special revenue fund	(4,348)	(4,348)	—	—
State-funded teachers' retirement costs	(53,685)	(53,685)	—	—
Capital project fund revenue	(13,000)	—	13,000	—
Convention Center fund revenue	(18,000)	—	18,000	—
Trust fund revenue	(1,849)	—	1,849	—
Transfers	(1,788)	—	1,788	—
As reported on a GAAP basis	<u>\$ 1,794,467</u>	<u>1,739,859</u>	<u>34,637</u>	<u>89,245</u>

(5) Deposits and Investments

State and local statutes place certain limitations on the nature of deposits and investments available to the City. Deposits, including demand deposits, money markets and certificates of deposit in any one financial

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

institution, may not exceed certain levels unless collateralized by the financial institution involved. Investments may be made in unconditionally guaranteed U.S. Government obligations having maturities of a year or less from the date of purchase, or through repurchase agreements with maturities of no greater than 90 days in which the underlying securities consist of such obligations. Other allowable investments include authorized bonds of all states, bankers' acceptances, commercial paper rated within the three highest classifications established by rating agencies, and units in the Massachusetts Municipal Depository Trust (MMDT). The Treasurer of the Commonwealth of Massachusetts oversees the financial management of the MMDT, a local investment pool for cities, towns and other state and local agencies within the Commonwealth. The City's fair value of its investment in the MMDT represents their value of the pool's shares.

The City's pension and certain other trust funds have additional investment powers, most notably the ability to invest in common stocks, corporate bonds and other specified investments.

(a) *Deposits*

The City categorized deposits according to the level of risk assumed. Category 1 includes deposits which are fully insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. Category 3 includes those deposits that are not collateralized. The City's deposits at June 30, 2003 are as follows (in thousands):

		Category			Total bank	Carrying
		1	2	3	balance	amount
Total cash deposits	\$	<u>1,516</u>	<u>—</u>	<u>113,403</u>	<u>114,919</u>	<u>94,422</u>

Outstanding checks largely account for the difference between the bank balance and the carrying amount of deposits.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

(b) Investments

The City and SBRS categorize investments according to the level of risk assumed. Category 1 includes investments that are insured, registered or held by the entity or its agent in the entity's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the entity's name. Category 3 includes uninsured and unregistered investments held by the counterparty, or by its trust department or agent but not in the entity's name. MMDT, other mutual funds, pooled funds, venture capital funds and real estate investments are not categorized. The City's investments are as follows (in thousands):

Primary government June 30, 2003	Category			Fair value
	1	2	3	
Categorized:				
U.S. Government obligations	\$ —	1,237	—	1,237
Debt securities	—	16,869	—	16,869
Equity securities	—	11,784	25,908	37,692
	<u>\$ —</u>	<u>29,890</u>	<u>25,908</u>	<u>55,798</u>
Not categorized:				
Repurchase agreements				528,435
MMDT				139,548
Mutual funds				41,301
				<u>\$ 820,880</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

SBRS – December 31, 2002	Category			Fair value
	1	2	3	
Categorized:				
Investments:				
Short-term investments	\$ 159,038	—	—	159,038
Domestic equity securities	692,311	—	—	692,311
Domestic debt securities	200,608	—	—	200,608
International equity	226,418	—	—	226,418
International debt	105,414	—	—	105,414
Securities on loan with noncash collateral:				
Domestic debt securities	5,238	—	—	5,238
International equity	7,639	—	—	7,639
	<u>\$ 1,396,666</u>	<u>—</u>	<u>—</u>	<u>1,396,666</u>
Not categorized:				
Securities on loan with short-term collateral investment pool (cash):				
Domestic debt securities				109,752
Domestic equity securities				20,401
International equity				54,015
Securities lending short-term collateral investment pool				190,801
Investments:				
MMDT				24,575
Pooled funds				768,719
Real estate				221,683
Venture capital funds				59,789
				<u>\$ 2,846,401</u>

The composition of the City's bank deposits and investments fluctuates depending primarily on the timing of real estate tax receipts, proceeds from borrowings, collection of state and federal aid and capital outlays throughout the year.

(6) Property Taxes

Real and personal property taxes are based on values assessed as of each January 1. By law, all taxable property must be assessed at 100% of fair cash value. Also by law, property taxes must be levied at least 30 days prior to their due date. Once levied, these taxes are recorded as receivables, net of estimated uncollectible balances. Property tax revenues have been recorded using the modified accrual basis of accounting, described in note 2.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

The City bills and collects its property taxes on a quarterly basis following the January 1 assessment. The due dates for those quarterly tax billings are August 1, November 1, February 1, and May 1. Property taxes that remain unpaid after the respective due dates are subject to penalties and interest charges.

Based on the City's experience, most property taxes are collected during the year in which they are assessed. Liening of properties on which taxes remain unpaid occurs annually. On November 14, all properties with unpaid fiscal 2001 property taxes were lienied. The City ultimately has the right to foreclose on all properties where the taxes remain unpaid.

A statewide property tax limitation known as "Proposition 2-1/2" limits the amount of increase in the property tax levy in any fiscal year. Generally, Proposition 2-1/2 limits the total levy to an amount not greater than 2-1/2% of the total assessed value of all taxable property within the City. Secondly, the tax levy cannot increase by more than 2-1/2% of the prior year's levy plus the taxes on property newly added to the tax rolls. Certain provisions of Proposition 2-1/2 can be overridden by a City-wide referendum.

(7) Receivables

Receivables as of year-end for the government's individual major funds, nonmajor funds and internal service fund, including the applicable allowances for uncollectible accounts are as follows (in thousands):

	<u>General</u>	<u>Special revenue</u>	<u>Other non-major funds</u>	<u>Internal service</u>	<u>Total</u>
Receivables:					
Property taxes	\$ 41,175	—	—	—	41,175
Other taxes	141,188	—	—	—	141,188
Intergovernmental	85,292	83,769	—	—	169,061
Other	37,962	165	164	279	38,570
	<u>305,617</u>	<u>83,934</u>	<u>164</u>	<u>279</u>	<u>389,994</u>
Gross receivables	305,617	83,934	164	279	389,994
Less allowance for uncollectibles	(164,528)	—	—	—	(164,528)
Net total receivables	<u>\$ 141,089</u>	<u>83,934</u>	<u>164</u>	<u>279</u>	<u>225,466</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows (in thousands):

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (general fund)	\$ 36,102	—
Due from component units	—	15,361
Other	—	6,489
	<u>36,102</u>	<u>21,850</u>
Total deferred/unearned revenue for governmental funds	<u>\$ 36,102</u>	<u>21,850</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

(8) Capital Assets

Capital asset activity for the year ended June 30, 2003 was as follows (in thousands):

Primary Government

	Beginning balance	Increases	Decreases	Ending balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 14,466	—	—	14,466
Construction in progress	401,295	141,866	69,409	473,752
Total capital assets not being depreciated	415,761	141,866	69,409	488,218
Capital assets being depreciated:				
Land improvements	15,507	1,190	—	16,697
Buildings and improvements	939,198	45,622	—	984,820
Furniture and equipment	117,192	25,157	—	142,349
Infrastructure	242,383	1,508	—	243,891
Total capital assets being depreciated	1,314,280	73,477	—	1,387,757
Less accumulated depreciation for:				
Land improvements	3,191	3,807	—	6,998
Buildings and improvements	765,280	18,462	—	783,742
Furniture and equipment	99,943	9,191	—	109,134
Infrastructure	79,685	6,751	—	86,436
Total accumulated depreciation	948,099	38,211	—	986,310
Total capital assets being depreciated, net	366,181	35,266	—	401,447
Governmental activities capital assets, net	\$ 781,942	177,132	69,409	889,665

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 8,911
Human services	492
Public safety	6,175
Public works, including depreciation of general infrastructure assets	8,722
Property and development	350
Parks and recreation	4,455
Library	1,037
Schools	7,915
County	154
Total depreciation expense – governmental activities	\$ <u>38,211</u>

(9) Interfund Receivable and Payable Balances

Individual fund and discrete component unit receivable and payable balances at June 30, 2003, are as follows (in thousands):

<u>Interfund balances</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 18,000	1,765
Special revenue	1,044	—
Capital projects	101	—
Convention Center	—	18,000
Internal service	620	—
Balance at June 30, 2003	19,765	19,765
SBRS at December 31, 2002	14	—
Balances in accompanying basic financial statements	\$ <u>19,779</u>	<u>19,765</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

The purpose of the internal balances is to fund cash flows due to timing differences between receipts and disbursements (in thousands).

Discrete component unit balances	Receivable	Payable
Primary government:		
General	\$ 15,679	—
Hospital revenue bond	122,869	—
	<u>138,548</u>	<u>—</u>
Discretely presented component units:		
TPL	—	97
PHC	—	138,451
	<u>—</u>	<u>138,548</u>
Balances in accompanying basic financial statements	\$ <u>138,548</u>	<u>138,548</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

(10) Long-Term Obligations

(a) Governmental Activity Obligations

Following is a summary of the governmental long-term obligations of the City as of June 30, 2003 (in thousands):

	Interest rates	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year	Due within one year
Bonds and notes payable:						
General obligation refunding bonds dated 2/1/03	2.25-5.0%	\$ —	162,015	—	162,015	6,865
General obligation refunding bonds dated 11/15/02	4.00%-5.0%	—	43,070	—	43,070	14,270
General obligation refunding bonds dated 8/15/02	2.875-5.0%	—	48,640	580	48,060	265
General obligation bonds dated 2/1/02	3.00-5.0%	100,000	—	6,090	93,910	6,090
General obligation refunding bonds dated 4/11/01	3.50-5.0%	52,025	—	500	51,525	4,215
General obligation bonds dated 2/1/01	4.25-5.0%	111,640	—	8,360	103,280	8,360
General obligation bonds dated 2/1/00	5.0-5.75%	100,320	—	46,325	53,995	9,840
General obligation bonds dated 10/15/98	3.25-5.0%	96,870	—	7,710	89,160	7,710
General obligation refunding bonds dated 4/15/98	4.5-5.25%	56,810	—	1,385	55,425	4,610
General obligation bonds dated 1/15/98	4.5%	59,615	—	7,595	52,020	4,625
General obligation bonds dated 11/15/96	5.0%	54,000	—	13,700	40,300	5,400
General obligation bonds dated 10/15/95	5.0-5.25%	19,900	—	3,100	16,800	3,100
General obligation bonds dated 9/1/94	5.0-6.0%	19,210	—	4,530	14,680	4,780
General obligation refunding bonds dated 2/1/94	4.0-5.0%	55,555	—	5,920	49,635	5,800
General obligation bonds dated 9/1/93	4.0-4.875%	35,565	—	35,565	—	—
General obligation refunding bonds dated 2/1/93	3.0-5.65%	60,760	—	60,760	—	—
General obligation bonds dated 2/15/92	4.75-6.5%	3,195	—	3,195	—	—
General obligation refunding bonds dated 5/15/91	6.5%-6.6%	4,000	—	4,000	—	—
Total governmental obligation bonds payable		\$ 829,465	253,725	209,315	873,875	85,930
Less:						
Unamortized bond premiums					12,984	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(7,485)	
Current portion of long-term debt					(85,930)	
					\$ 793,444	

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

(b) Notes Payable and Other Long-Term Obligations

Following is a summary of the notes payable and other long-term obligations of the City as of June 30, 2003 (in thousands):

	<u>Interest rates</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>	<u>Due within one year</u>
Notes payable:						
MWPAT note payable	4.25-5.75%	\$ 9,311	—	444	8,867	449
Notes payable – SEC 108	5.44-7.18%	30,968	4,094	2,340	32,722	1,450
Bond Anticipation Notes dated 2/1/02	3.5%	62,000	—	—	62,000	—
Bond Anticipation Notes dated 2/1/01	4.0%	25,000	—	25,000	—	—
Bonds Anticipation Notes dated 2/1/03	2.125%	—	34,000	—	34,000	—
Total notes payable		<u>127,279</u>	<u>38,094</u>	<u>27,784</u>	<u>137,589</u>	<u>1,899</u>
Other long-term obligations:						
Leases		26,036	16,715	25,259	17,492	7,660
Judgments and claims		32,450	19,585	21,419	30,616	6,648
Compensated absences, net		169,177	—	7,632	161,545	45,724
Landfill postclosure care costs		14,871	—	293	14,578	—
Total other long-term obligations		<u>242,534</u>	<u>36,300</u>	<u>54,603</u>	<u>224,231</u>	<u>60,032</u>
Total notes and other long-term obligation		<u>\$ 369,813</u>	<u>74,394</u>	<u>82,387</u>	<u>361,820</u>	<u>61,931</u>

The payment of liabilities for judgments and claims, compensated absences and landfill postclosure costs is primarily the responsibility of the City's general fund.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

(c) Business Type Activity Obligations

Following is a summary of the business type long-term obligations of the City as of June 30, 2003 (in thousands):

	<u>Interest rates</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>	<u>Due within one year</u>
Convention Center fund:						
Special Obligation Bonds dated 4/1/02	4.0-5.25%	\$ 116,890	—	2,100	114,790	2,310
Hospital Bond fund:						
Revenue Refunding Bonds, Boston City Hospital, Series B, dated 6/1/93	3.60-5.25%	141,095	—	141,095	—	—
Special Obligation Refunding Bonds, Boston City Hospital, dated 8/1/02	2.00-5.00%	<u>—</u>	<u>127,800</u>	<u>—</u>	<u>127,800</u>	<u>7,385</u>
Total business type obligations		<u>\$ 257,985</u>	<u>127,800</u>	<u>143,195</u>	<u>242,590</u>	<u>9,695</u>
Less:						
Unamortized bond premiums					3,871	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(510)	
Current portion of long-term debt					<u>(9,695)</u>	
					<u>\$ 236,256</u>	

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

A. General Obligation Bonds

The annual debt service requirements of the City's general obligation governmental bonds outstanding as of June 30, 2003, are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2004	\$ 85,930	39,923	125,853
2005	81,410	35,729	117,139
2006	68,950	32,197	101,147
2007	68,180	29,148	97,328
2008	62,470	26,193	88,663
2009-2013	240,285	90,633	330,918
2014-2018	186,125	38,257	224,382
2019-2023	80,525	8,721	89,246
	<u>\$ 873,875</u>	<u>300,801</u>	<u>1,174,676</u>

General obligation bonds are backed by the full faith and credit of the City. The Commonwealth has approved school construction assistance, subject to annual appropriation by the state legislature and reports filed with the Commonwealth by the City, to partially provide resources for future principal and interest requirements on general obligation school bonds of the City. As of June 30, 2003, such resources expected to be provided to the City total approximately \$200,405,118 from the Commonwealth.

On February 1, 2003, the City issued \$162,015,000 of general obligation bonds and refunding bonds. The bonds were issued for municipal purposes, to finance the acquisition price of the building located at 1010 Massachusetts Avenue and to permanently finance the City's \$25,000,000 bond anticipation notes, 2003 Series A. In addition, \$29,470,000 of the proceeds of the bonds were issued to advance refund \$33,375,000 worth of certain of the City's general obligation bonds. Interest on the bonds is payable semiannually on each February 1 and August 1, until maturity in fiscal 2023. The economic gain (the difference between the present values of the debt service payments on old and new debt) obtained from this refunding was \$1,163,995.

On November 15, 2002, the City issued \$43,070,000 of general obligation refunding bonds for the purpose of current refunding of certain outstanding general obligation bonds of the City. The proceeds were used to refund \$45,095 of the City's General Obligation bonds outstanding. Interest on the bonds is payable semiannually each February 1 and August 1, until maturity in fiscal 2009. The economic gain (the difference between the present values of the debt service payments on old and new debt) obtained from this refunding was \$2,546,974.

On August 15, 2002, the City issued \$48,640,000 of general obligation refunding bonds to advance refund certain outstanding general obligation bonds. The proceeds were used to refund \$44,785,000 of certain City General Obligation bonds. Interest on the bond is payable semiannually each February 1 and August 1, until maturity in fiscal 2020. The economic gain (the difference between the present values of the debt service payments on old and new debt) obtained from this refunding was \$2,073,958.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

No Obligation Debt

The City has outstanding industrial, commercial and housing development bonds payable solely from revenues of the respective enterprises that do not constitute an indebtedness of the City and are not a charge against its general credit. This aggregate amount is immaterial to the financial statements.

The City is subject to a dual general debt limit: the normal debt limit and the double debt limit. Such limits are equal to 2-1/2% and 5%, respectively, of the valuation of taxable property in the City as last equalized by the State Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth's Emergency Finance Board. Additionally, there are many categories of general obligation debt which are exempt from the debt limit but are subject to other limitations.

As of June 30, 2003, the City may issue \$766.7 million of additional general obligation debt under the debt limit. General obligation debt of \$388.3 million, subject to the debt limit, and \$169.1 million, exempt from the debt limit, is authorized but unissued as of June 30, 2003

B. Notes Payable and Other Long-Term Obligations

At June 30, 2003 the City had bond anticipation notes (BANs) and various other notes outstanding totaling \$137,589. The City has the intent and ability to refinance the BANs with bond proceeds upon maturity and therefore these amounts are classified as long term in the accompanying statement of net assets.

The annual debt of the City's notes payable as of June 30, 2003, is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2004	\$ 1,899	4,529	6,428
2005	2,030	4,896	6,926
2006	98,221	4,277	102,498
2007	2,325	1,655	3,980
2008	3,829	1,533	5,362
2009-2013	14,821	5,565	20,386
2014-2018	11,422	2,377	13,799
2019-2023	3,042	508	3,550
	<u>\$ 137,589</u>	<u>25,340</u>	<u>162,929</u>

On February 1, 2003, the City issued \$34,000,000 in BANs to fund various school projects. The City will pay interest of approximately \$2,167,500 through fiscal 2006. The City is expected to issue general obligation bonds to refund the BANs; accordingly, they have been classified as long-term obligations.

On February 1, 2003, general obligation bond anticipation notes were issued in the amount of \$25,000,000 and matured on February 26, 2003. The interest rate of 1.50% was payable at date of maturity.

As of June 30, 2002, the City has a permanent loan agreement with the Massachusetts Water Pollution Abatement Trust (MWPAT) for \$13.4 million. The loan provides funding for the closure and postclosure

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

care costs relating to the City's Gardner Street Landfill. Proceeds are received on a reimbursement basis from MWPAT as expenditures are incurred by the City.

C. Proprietary Fund Obligations

The annual debt service requirements of the City's special obligation bonds and Boston City Hospital, Series B, revenue bonds, outstanding as of June 30, 2003 are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2004	\$ 9,695	10,795	20,490
2005	8,905	10,514	19,419
2006	9,220	10,188	19,408
2007	9,565	9,843	19,408
2008	9,920	9,451	19,371
2009-2013	56,295	40,488	96,783
2014-2018	69,510	26,895	96,405
2019-2023	40,155	12,161	52,316
2024-2028	29,325	3,755	33,080
	<u>\$ 242,590</u>	<u>134,090</u>	<u>376,680</u>

On August 1, 2002, the City issued special obligation bonds in the amount of \$127,800,000 for the purpose of refinancing Revenue Refunding Bonds, Boston City Hospital, Series B, dated June 1, 1993. Interest on the note is payable semiannually on each February 1 and August 1, until maturity in fiscal 2019. The economic gain (the difference between the present values of the debt service payments on old and new debt) obtained from this refunding was \$11,492,111.

The revenue refunding bonds of the Boston City Hospital (BCH) do not constitute general obligations of the City and the annual debt service of these bonds has been assumed by the Boston Public Health Commission. The Boston Public Health Commission expects to meet its obligation on the bonds through application of a portion of the rent payable to the Boston Public Health Commission by the Boston Medical Center Corporation (BMC) for its lease of the former Boston City Hospital. Under certain circumstances, including a default by BMC under the lease, City revenues may be required to satisfy the debt service requirements on the Series B bonds.

The Boston Public Health Commission has assumed responsibility for paying to the City an amount equal to current debt service on all outstanding general obligation bonds of the City issued for public health and hospital purposes which amounted to \$15.3 million at June 30, 2003.

Defeased Debt – Prior Year

The following prior year transactions met the requirements of an in-substance defeasance:

- On April 11, 2001, the City issued \$52.0 million in general obligation refunding bonds to advance refund \$49.9 million of 1991, 1994, and 1995 Series Bonds.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

- On May 12, 1998, the City issued \$77.9 million in general obligation bonds, dated April 15, 1998, of which \$62.9 million was used to advance refund \$58.0 million of 1989, 1990, 1992 and 1994 Series Bonds.
- In August 2002, \$127.8 million of bonds were issued to refund the Boston City Hospital, Series B Bonds dated June 1, 1993.

The principal amount of debt refunded through in-substance defeasance transactions and still outstanding at June 30, 2003 was approximately \$243 million.

D. Lease Obligations

The City has entered into various capital lease agreements for equipment acquisition. Payments under these agreements are subject to annual appropriation and, by statute, are not included in the City's debt limit calculations. Activity in capital lease agreements during fiscal year 2003 was as follows (in thousands):

<u>Date of issuance</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>
December 17, 1996	\$ 60	—	60	—
November 10, 1997	166	—	166	—
June 25, 1998	1,441	—	1,441	—
August 25, 1998	2,258	—	2,258	—
March 18, 1999	683	—	683	—
October 1, 1999	3,109	—	3,109	—
January 25, 2000	2,641	—	2,641	—
November 21, 2000	7,649	—	7,649	—
May 21, 2001	390	—	209	181
October 31, 2001	6,014	—	1,980	4,034
June 5, 2002	1,625	—	457	1,168
December 20, 2002	—	16,715	4,606	12,109
	<u>\$ 26,036</u>	<u>16,715</u>	<u>25,259</u>	<u>17,492</u>

Assets acquired under capital leases are included in equipment under capital assets.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

Future minimum payments under capital leases and installment sales as of June 30, 2003 are as follows (in thousands):

2004	\$	8,086
2005		5,373
2006		2,592
2007		1,863
2008		372
2009		52
		<hr/>
Total minimum lease payments		18,338
Less amount representing interest		(846)
		<hr/>
Total minimum principal lease payments		17,492
Less current portion		(7,660)
		<hr/>
Long-term portion	\$	<u>9,832</u>

The City's commitment under operating leases is not significant.

(11) Retirement Plans

(a) Plan Description

The City contributes to the State-Boston Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan. The System provides retirement, disability and death benefits to plan members and beneficiaries of the following government units:

- (1) City of Boston
- (2) Boston Redevelopment Authority
- (3) Boston Housing Authority
- (4) Boston Water & Sewer Commission
- (5) Public Health Commission
- (6) Sheriff of Suffolk County

Chapter 32 of the Massachusetts General Laws (MGL) assigns authority to establish and amend benefit provisions of the plan to the state legislature.

The System is administered by a five-person Board of Retirement consisting of the City Auditor who serves as a member *ex officio*, two members who are elected by the participants, in or retired from the service of the System, a fourth member appointed by the Mayor and a fifth member chosen by the other members.

The City also participates in the Boston Retirement System (BRS) and made benefit payments of approximately \$7.2 million for the year ended June 30, 2003. The number of BRS plan participants was frozen in 1946. The financial statements of BRS are combined with the System's; however, disclosures for BRS are not material and, thus, are not presented separately.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

(b) *Basis of Accounting*

The System's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Investments of the System are stated as follows:

- (a) Bonds are stated at quoted market value.
- (b) Equity securities are stated at quoted market value.
- (c) Real estate funds are stated at appraised value or partner's account value, whichever is more readily determinable.
- (d) Venture capital funds are stated at contributed cost or fair market value, whichever is more readily determinable.
- (e) International investments are stated at quoted market value and are included in equities and fixed income categories.
- (f) Cash is stated at carrying amount which is reconciled book balance.

(c) *Membership*

Membership in the System consisted of the following at December 31, 2002, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	13,400
Terminated plan members entitled to but not receiving benefits	3,560
Active plan members	21,695
Total membership	38,655
Total number of participating employers	6

(d) *Contributions*

Plan members are required to contribute to the System. Depending on their employment date, active members must contribute a range of 5%-9% of their regular gross compensation. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30,000. Participating employers are required to pay into the System their share of the remaining system-wide actuarially determined contribution, which is apportioned among the employers based on active covered payroll. The Commonwealth of Massachusetts (the Commonwealth) reimburses the City for benefits paid to school teachers. The Commonwealth also reimbursed the System for a portion of benefit payments for cost of living increases granted before July 1, 1998. The contributions of plan members and the participating employers are governed by Chapter 32 of the MGL. The City's required and actual contributions to the System for the years ended June 30, 2003, 2002 and 2001 were \$134 million, \$130 million, and \$127 million, or \$86 million, \$85 million, and \$88 million, net of teachers' retirement, respectively.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

During the fall of 1997 the System's Retirement Board, the City Council and the Mayor approved the option for local funding of cost of living adjustments. As a result, a locally funded cost of living adjustment of 3.0% on the first \$12,000 of a retiree's annual payment was awarded in fiscal 2002 and fiscal 2001. These cost of living adjustments will be awarded by the Retirement Board each year, except in years in which the Retirement Board determines that such an adjustment would substantially impair the funding schedule.

(e) Legally Required Reserve Accounts

The balances in the System's legally required reserves (on the statutory basis of accounting) at December 31, 2002 are as follows (in thousands):

Description	Amount	Purpose
Annuity savings fund	\$ 1,030,848	Active members' contribution balance
Annuity reserve fund	302,904	Retired members' contribution account
Military service credit	60	Members' contribution account while on military leave
Pension reserve fund	544,253	Amounts appropriated to fund future retirement benefits
Pension fund	794,812	Remaining net assets
	<u>\$ 2,672,877</u>	

All reserve accounts are funded at levels required by State statute.

(f) Securities Lending

The Public Employment Retirement Administration Commission of Massachusetts (PERAC) has issued supplemental regulations that permit the System to engage in securities lending transactions. These transactions are conducted by the System's custodian, which lends certain securities owned by the System to other broker-dealers and banks pursuant to a form of loan agreement. The System and the borrowers maintain the right to terminate all securities lending transactions on demand.

At the System's direction, the custodian lends the System's securities and receives cash (including both United States and foreign currency), United States government securities, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. The custodian does not have the ability to pledge or sell collateral unless the borrower defaults. Borrowers are required to deliver cash collateral in amounts equal to not less than 100% of the market value of the loaned securities.

The System does not impose any restrictions on the amount of securities lent on its behalf by the custodian. There were no failures by any borrowers to return loaned securities or pay distributions thereon, and there were no losses from a default of the borrowers or the custodian for the years ended December 31, 2002 and 2001. The cash collateral received by the custodian on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. The relationship between the average maturities of the investment pool and loans was affected by the maturities of the loans made by other plans that invested cash collateral in the collective investment pool, which the System could not determine. At December 31, 2002 and 2001,

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts owed to the System. Borrower rebates and fees paid to the custodian during the years ended December 31, 2002 and 2001 were \$3,020,000 and \$8,445,000, respectively.

At December 31, 2002 and 2001, the fair value of securities loaned by the System amounted to \$197,045,000 and \$173,469,000, respectively, against which was held collateral of \$204,232,000 and \$180,010,000, respectively, as follows (in thousands):

	December 31	
	2002	2001
Short-term collateral investment pool	\$ 190,801	174,424
Noncash collateral	13,431	5,586
Total	\$ 204,232	180,010

(g) **Commitments**

At December 31, 2002, the System had contractual commitments to provide \$141,876,000 of additional funding to venture capital funds.

(12) Other Postemployment Benefit Disclosures

In addition to the pension benefits described in note 11, the City provides postemployment health care and life insurance benefits, in accordance with state statute and City ordinance, to eligible retirees. Approximately 12,600 retirees meet the eligibility requirements as put forth in Chapter 32B of Massachusetts General Laws. The City pays 75% of Blue Cross/Blue Shield of Massachusetts (BC/BS) premiums and 90% of HMO premiums for medical and hospitalization incurred by retirees and their dependents. The City also pays 75% of BC/BS Medicare premiums for each Medicare eligible retiree. The City provides for 50% of the premiums for \$5,000 of life insurance for each eligible retiree.

Expenditures of approximately \$52.3 million for health care and life insurance benefits for retirees are accounted for on a pay-as-you-go basis in fiscal 2003.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

(13) Transfers

Transfers and their purposes during the year ended June 30, 2003 were as follows (in thousands):

	Governmental funds			Proprietary fund
	General	Capital	Other governmental funds	Convention center
Primary government:				
Support for parks development \$	1,849	—	(1,849)	—
Surplus property	13,000	(13,000)	—	—
Hotel/motel taxes	18,000	—	—	(18,000)
Available funds	1,788	(1,788)	—	—
	<u>\$ 34,637</u>	<u>(14,788)</u>	<u>(1,849)</u>	<u>(18,000)</u>

(14) Excess of Expenditures over Budgets

The City had expenditures in excess of their budgeted amounts for the year ended June 30, 2003 in the following categories (in thousands):

Public safety:	
Fire Department	\$ 6,832
Public works:	
Snow removal	5,434
Property and development:	
Property management	196
State and district assessments	511
	<u>\$ 12,973</u>

The excess expenditures reported above are allowed under the budgetary laws governing the City.

(15) Public Health System

Effective July 1, 1996, the City's Department of Health and Hospitals and Trustees of Health and Hospitals, a component unit, were abolished. Substantially all their assets and liabilities, including title to the City's two hospitals, Boston City Hospital (BCH) and Boston Specialty and Rehabilitation Hospital (BSRH), were transferred to and assumed by the Boston Public Health Commission (PHC).

Also effective July 1, 1996, the operations of BCH and BSRH were consolidated with the operations of the Boston University Medical Center under the licensure and control of the Boston Medical Center Corporation (BMC).

The PHC receives the majority of its funding from federal and state grants, lease agreements with BMC and a City appropriation. During fiscal 2003, the City appropriated \$63.9 million to the PHC. As described below, the PHC uses the appropriation to pay debt service on certain general obligation bonds and base

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

assistance grant payments to BMC. The remainder of the appropriation is used for administrative purposes and to support the various public health programs run by the PHC. The City has budgeted \$58.9 million for the PHC for fiscal 2004.

Due from PHC/BMC

On July 1, 1996, the PHC assumed a liability of \$149.8 million for a mortgage note (the Note) held by a trustee and insured by the Federal Housing Authority (FHA). The balance of the Note due to the City of \$129.1 million at June 30, 2002 was refinanced in August 2002. This refinancing resulted in a new note payable to the City for \$127.8 million. Payments made by the PHC to the trustee on this Note are used to pay the outstanding balance of \$122.9 million of the City's Special Obligation Refunding Bonds dated August 1, 2002. The PHC receives funding for these Note payments from the BMC under a lease agreement whereby the BMC leases portions of the former BCH for an initial period of 50 years. Rental payments received under this lease are equal to the debt service costs on the Note and on all City general obligation bonds allocable to BCH. These general obligation bonds were issued by the City between December 1967 and October 1995 and total \$15.3 million at June 30, 2003. These bonds pertain to the property and operations of the BCH Campus, South Block Campus, BSRH Campus, Emergency Medical Services Operations and the Long Island Campus.

In addition, the PHC and BMC are also responsible for reimbursing the City for health insurance, equipment lease payments, workers' compensation and other miscellaneous expenses paid for by the City.

Payments to BMC

Under the terms of the consolidation agreement, the PHC is obligated to pay BMC \$1.0 million per year for five (5) years, beginning on July 1, 1996, to subsidize the costs of consolidation. If after 5 years, total consolidation costs total less than \$10.0 million, the PHC is entitled to a rebate in an amount that will bring the PHC's share of these costs to 50%. The fiscal year 2001 payment to BMC represented the final payment under the terms of the consolidation agreement, and it is expected BMC will provide documentation of the consolidated costs in fulfillment of the consolidation agreement.

PHC is obligated to make future base assistance grant payments to BMC totaling \$10.8 million each year until the Note has been paid off (scheduled in 2019).

In addition, during fiscal 1997, the City made \$20.0 million in contributions to a capital fund in support of the Boston HealthNet health center members. The BMC is expected to provide \$2.0 million in each of the six (6) years following the consolidation in additional support to the Boston HealthNet health center members.

(16) Risk Management

The City is self insured for general liability, property and casualty (except for boiler and machinery losses up to \$2.5 million), worker injury, unemployment and certain employee health claims. The City's Corporation Counsel defends the City in any lawsuits that arise from the normal course of operations, with exposure limited by a state tort cap under Chapter 258 of the Massachusetts General Laws. Except for certain health care costs described below, judgments and claims are charged to the general fund.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

The City's health insurance program, administered by the Health Insurance and Benefits Division, a program within Human Resources, provides coverage to the City's employees and retirees through a number of Health Maintenance Organizations (HMO) and Blue Cross/Blue Shield of Massachusetts (BC/BS). Costs to the City for the HMOs, of which 10% is paid by employees, are accounted for in the general fund and are capped at a defined premium payment per employee.

BC/BS acts as a third-party agent for the City in the payment of the various claim plans used by the City. Costs incurred for the operation of the BC/BS plans, of which 25% is paid by employees, are accounted for in a separate health insurance internal service fund.

The City has implemented a comprehensive risk financing strategy that includes establishing a catastrophic risk reserve, currently with a \$6.8 million balance available for future losses. The City has also improved systems for maximizing the receipt of federal disaster funds. On July 1, 2002, the City's property insurance policy went into effect – a one-year, all-risk catastrophic policy covering all City property assets up to \$30 million, after a \$20 million retention. Any boiler and machinery-related property loss is additionally insured, after a \$50,000 deductible, for up to \$2.5 million.

The City has established a liability based on historical trends of previous years and attorney's estimates of pending matters and lawsuits in which the City is involved. Changes in the self-insurance liability for the fiscal years ended June 30, 2003 and 2002 are as follows (in thousands):

Internal service fund			
	2003	2002	
Health and life claims, beginning of year	\$ 7,051	10,000	
Incurred claims	72,597	61,818	
Payments of claims attributable to events of both the current and prior fiscal years:			
Health and life	(72,323)	(64,767)	
Health and life claims, end of year	\$ 7,325	7,051	
Government-wide statements			
	2003	2002	
Judgments and claims, beginning of year	\$ 32,450	22,450	
Incurred claims	19,585	36,041	
Payments of claims attributable to events of both the current and prior fiscal years:			
Workers' compensation	(14,898)	(13,756)	
Unemployment compensation	(4,355)	(2,285)	
Court judgments	(2,166)	(10,000)	
Judgments and claims, end of year	\$ 30,616	32,450	

The liabilities above have not been discounted to their present value. Incurred claims represent the total of a provision for events of the current fiscal year and any change in the provision for events of the prior fiscal years.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

There are numerous pending matters and lawsuits in which the City is involved. The City attorneys estimate that the potential claims against the City not recorded in the accompanying basic financial statements resulting from such litigation would not materially affect the basic financial statements.

(17) Discretely Presented Component Units

The following presents condensed financial statements for each of the discretely presented component units:

Condensed Statement of Net Assets					
June 30, 2003					
(In thousands)					
	PHC	BRA	TPL	EDIC	Total
Assets:					
Cash and investments	\$ 56,201	39,859	51,489	13,582	161,131
Cash and investments held by trustee	—	1,082	—	3,819	4,901
Receivables, net:					
Other	7,697	81,183	1,693	19,294	109,867
Other assets	125,503	34,079	3,501	1,232	164,315
Capital assets:					
Nondepreciable	13,734	3,476	150	1,420	18,780
Depreciable	8,843	1,597	1,193	26,201	37,834
Due from BMC	10,523	—	—	—	10,523
Total assets	\$ 222,501	161,276	58,026	65,548	507,351
Liabilities:					
Warrants and accounts payable	\$ 10,163	94,661	3,545	5,181	113,550
Accrued liabilities:					
Other	387	—	371	2,149	2,907
Due to BMC	36,178	—	—	—	36,178
Due to primary government	138,451	—	97	—	138,548
Deferred revenue	4,573	35,439	—	9,015	49,027
Noncurrent liabilities:					
Due within one year	—	—	—	3,695	3,695
Due in more than one year	—	1,950	—	16,433	18,383
Other	3,108	19,424	—	1,039	23,571
Total liabilities	\$ 192,860	151,474	4,013	37,512	385,859
Net assets:					
Invested in capital assets, net of related debt	\$ 17,303	3,598	1,344	10,714	32,959
Restricted	—	1,082	47,631	10,383	59,096
Unrestricted	12,338	5,122	5,038	6,939	29,437
Total net assets	\$ 29,641	9,802	54,013	28,036	121,492

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

Condensed Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2003

(In thousands)

	PHC	BRA	TPL	EDIC	Total
Operating revenues	\$ 56,627	34,627	10,861	34,143	136,258
City appropriation	63,897	—	—	—	63,897
Total revenues	120,524	34,627	10,861	34,143	200,155
Operating expenses	97,175	35,702	13,369	32,527	178,773
Excess of revenues over (under) expenses	23,349	(1,075)	(2,508)	1,616	21,382
Nonoperating revenue	319	752	—	—	1,071
Nonoperating expenses	(12,000)	(752)	—	—	(12,752)
Interest expense	(7,441)	—	—	(887)	(8,328)
Interest income	494	115	35	1,073	1,717
Net change in net assets	4,721	(960)	(2,473)	1,802	3,090
Net assets, beginning of year	24,920	10,762	56,486	26,234	118,402
Net assets, end of year	\$ 29,641	9,802	54,013	28,036	121,492

Schedule I

CITY OF BOSTON, MASSACHUSETTS

State-Boston Retirement System

Required Supplementary Information
(Unaudited)

(Dollar amounts in thousands)

Schedule of Funding Progress

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
01/01/03	\$ 3,204,893	5,121,319	1,916,426	62.6%	\$ 1,099,779	174.3%
01/01/02	3,376,000	4,861,000	1,485,000	69.5%	1,057,000	140.5%
01/01/01	3,212,000	4,257,000	1,045,000	75.5%	990,000	105.6%

Schedule of Employers' Contributions

	Annual required contribution	Percentage contributed
Year ended December 31:		
2002	\$ 152,882	100%
2001	146,882	100
2000	145,541	100

Notes to Schedules

Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2003
Actuarial cost method	Individual entry age normal
Amortization method	Payment increase at 4.5% per year
Remaining amortization period	21 years from July 1, 2002
Asset valuation method	Five-year smoothing of investment returns greater (less) than expected
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Inflation rate	5.0%
Cost-of-living adjustments	3.0% on first \$12,000 of retirement income